DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

Preston DuFauchard
California Corporations Commissioner
Sacramento, California

July 1, 2008

In a continuing effort to collect data from various mortgage loan servicers relating to loan modifications, forbearance plans and foreclosures, the Department of Corporations has posted results from a survey of Department licensees for the first five months of 2008. (We previously posted the information for 2007.) The data that accompanies this memorandum include: (1) updated data for each of the first three months of 2008, and (2) new data for April and May, 2008.

Loan Modifications Continue to Increase

Modifications and forbearance plans are the primary programs designed for borrowers who seek to keep their homes. For the most recent months of April and May, reporting entities have indicated a significant increase in loan modifications. The total number of loan modifications increased in April to 9,448 from 7,209 in March. April's data represent an increase of greater than 62.5% over January totals (5,812 loan modifications). The number for May was almost as robust at 8,686 loan modifications, still a marked improvement over each of the first three months of the year (a 49.4% increase over January).

During the same period, there has been a less dramatic increase in forbearance plans and other loss mitigation methods. Overall, the total number of all workouts closed in April amounted to 20,567, a 12.2% increase over March and a 27.2% increase since January. The total count in May was 21,359, a 32.1% increase over January.

A further encouraging result is that April and May loan modifications account for an increasing share of all the workouts reported and seem to represent a trend in the data. Since loan modifications are longer-term solutions for foreclosure prevention, this is a very favorable development and indicates that coordinated efforts at foreclosure prevention, including the Governor's Subprime Mortgage Agreement, have had positive impact on the mortgage crisis. Certainly, absent such efforts, the numbers would be less positive.

Previous Foreclosure Data has Been Revised

An important note is that the numbers posted here for the first five months of 2008 include a revision to the count of foreclosures reported for January, February and March. The "Foreclosure Sale / REO (Real Estate Owned)" totals were previously overstated. The Department became aware of servicers who had inadvertently either double-counted some properties or who had included national data for this category. This category is defined as loans for which no loss mitigation workout was applied and therefore the loan went to foreclosure sale and/or into REO inventory.

There has been speculation as to the true extent and causes of the high number of foreclosures in California over the past few months (see previous memoranda). The weakness in the housing market nationwide has contributed to the problem. An improving interest rate environment has mitigated much of the potential damage.

Still a Challenging Marketplace…

State and federal loan modification agreements – such as the Governor's Supbrime Mortgage Agreement and the national Hope Now guidelines – have helped to provide alternatives to borrowers facing difficulty in maintaining home ownership. The strategies adopted include counseling and outreach to borrowers to help and encourage them to work with lenders. Modifications represent one form of liquidity in this tight credit market for those homeowners who have no refinancing options. For others, the expansion of lower cost credit, such as the very welcome recent expansion of federal conforming loan limits to accommodate California housing prices offer additional aid. This solution has been strongly advocated by Governor Schwarzenegger.

The Department has continued with efforts to coordinate responses to the housing downturn with mortgage lenders, servicers and local, state and federal agencies, and consumer groups. The severity of the downturn in the housing market has had a serious impact on homeowners in all areas of the state. A quick recovery seems highly unlikely, but with coordinated efforts at home preservation and foreclosure prevention, we are working to minimize the effects on the state economy and California families.